
AUDIT REPORT



RESOURCES FOR HUMAN DEVELOPMENT
SUPPORTIVE HOUSING GRANTS
PA26B8941402(RENEWAL) AND
PA26B970105(RENEWAL)
PHILADELPHIA, PENNSYLVANIA

2001-PH-1004

APRIL 20, 2001

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



Issue Date	April 20, 2001
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TO: Joyce Gaskins, Director, Office of Community Planning and Development, Mid-Atlantic, 3AD

For Allen G. Temme

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Resources for Human Development
Supportive Housing Grants
PA26B8941402 (Renewal) and PA26B970105 (Renewal)
Philadelphia, Pennsylvania

As part of a nationwide review of HUD's Continuum of Care Program, we audited two 1997 renewal Supportive Housing Program grants awarded to Resources for Human Development (RHD) for a homeless transitional facility known as "Always Have A Dream" (AHAD).

We determined RHD implemented the grants in accordance with its applications, maintained evidence of measurable results, ensured a sustainable program, and expended funds timely. However, RHD needs to improve administration of the program and our report contains two findings requiring action by your office.

Within 60 days, please give us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact J. Phillip Griffin, Assistant District Inspector General for Audit, at (215) 656-3401, extension 3490.

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Executive Summary

As part of a nationwide review of HUD's Continuum of Care Program, we audited two Resources for Human Development's (RHD) 1997 Supportive Housing renewal grants. Our objectives were to determine whether RHD:

- Implemented the grants in accordance with its applications;
- Expended funds for eligible activities under Federal regulations and applicable cost principles;
- Maintained evidence of measurable results;
- Ensured a sustainable program; and
- Expended funds timely.

Administration of Program Needs Improvement

Our audit concluded RHD implemented the grants in accordance with its applications, maintained evidence of measurable results, ensured a sustainable program, and expended funds timely. However, RHD needs to improve administration of the program to ensure compliance with federal regulations. Specifically, RHD did not: (1) include only eligible costs in its grant draw downs; (2) base draw downs on cash requirements of the program; (3) classify transactions by type of eligible activity; and (4) file accurate Annual Progress Reports (APR).

Recommendations

We recommended that HUD require RHD to repay \$343,023 for ineligible costs and improve its controls over the program.

We presented our findings to RHD and HUD officials during the audit and held an exit conference with RHD on March 21, 2001. RHD officials chose not to make a formal response to the audit.

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Abbreviations

APR	Annual Progress Report
AHAD	Always Have A Dream
CFR	Code of Federal Regulations
HUD	U. S. Department of Housing and Urban Development
SHP	Supportive Housing Program
OHCD	Office of Housing and Community Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
RHD	Resources for Human Development

Introduction

Title IV of the Stewart B. McKinney Homeless Assistance Act authorized the Supportive Housing Program (SHP). This program was designed to promote the development of supportive housing and services. The program encourages the use of innovative approaches to assist homeless persons and provide supportive housing to enable them to live as independently as possible. Eligible activities include:

- Transitional housing;
- Permanent housing for homeless persons with disabilities;
- Innovative housing that meets the immediate and long-term needs of homeless persons;
- Supportive services for homeless persons not provided in conjunction with supportive housing; and
- Administration of the grants.

Resources for Human Development (RHD) is a nationwide nonprofit organization that has been providing social services since it was founded in 1970. It is a developer and provider of shelters for the homeless, residential drug treatment facilities, job training, support groups, and other services. It currently sponsors over 150 human service programs in more than 100 residences. One of those programs, “Always Have A Dream” or AHAD, was the subject of this audit.

AHAD is a transitional housing facility that serves homeless men recovering from problems resulting from the abuse of alcohol and/or other drugs. Its mission is to provide a stable, safe, and therapeutic environment that enables the residents to acquire the requisite insights and skills to achieve a drug-free lifestyle; learn the appropriate job skills to secure satisfactory employment; and secure permanent housing upon graduation.

HUD awarded RHD \$150,000 to rehabilitate the site for AHAD in 1990. Since 1990, HUD has awarded RHD several million dollars for the operation of AHAD and the supportive services associated with AHAD. The renewal grants that we audited were for \$1,398,762 and covered the period 1997 through 2000. However, we extended our coverage to the original 1989 grant in the case of one ineligible category of expense in order to determine the full effect of the ineligible expenses.

Audit Objectives and Scope

The audit objectives were to determine whether RHD:

- Implemented the grants in accordance with its applications;
- Expended funds for eligible activities under Federal regulations and applicable cost principles;
- Maintained evidence of measurable results;
- Ensured a sustainable program; and
- Expended funds timely.

To accomplish our audit objectives, we interviewed HUD and RHD officials; visited the AHAD site; reviewed the grant applications, grant agreements and progress reports; and analyzed financial records and participant records.

Total project expenses incurred under the two renewal grants between April 1, 1997 and July 31, 2000 were \$2,183,373 of which we tested expenses totaling \$454,108 (21 percent). The total project expenses were divided into 57 expense categories. We reviewed all of the categories for reasonableness. Almost half of the total expenses, or \$1,046,506 were actually charged to the grant during this period. The other expenses were paid from non-grant sources.

RHD provided transitional housing to an average of 118 participants per year during the audit period. Although it provided up to 45 beds at one time, the participants were admitted and discharged at different times during the year. We conducted a test of six of the 34 active participants and two recently discharged participants as of September 27, 2000. We also conducted a site visit to the property to determine whether the units were habitable.

Our audit period generally covered April 1997 through July 2000. However, we extended the audit period as appropriate. We performed the audit fieldwork between September 2000 and February 2001. We conducted the audit in accordance with generally accepted government auditing standards.

Ineligible Costs Were Charged To The Grant

Contrary to Federal regulations and grant requirements, RHD exceeded HUD approved budgets for supportive service and administrative costs by \$216,345. RHD incorrectly posted the excess supportive service and administrative costs to program operations. Additionally, RHD incurred another \$124,480 of ineligible costs for rent, \$1,895 for duplicate payments to vendors, and \$303 of gifts to participants and employees. These deficiencies occurred, for the most part, because of a lack of familiarity with HUD and other Federal requirements, including the requirement to maintain an accounting system that would recognize various activities or categories of expenses.

The duplicated payments occurred, because RHD violated its own policies and procedures for paying invoices.

As a result of RHD's lack of familiarity with Federal requirements and its violations of its policies and procedures, RHD improperly used \$343,012 of grant funds¹.

1. RHD Misclassified Supportive Service and Administrative Costs.

RHD improperly charged supportive service provider salaries and benefits of \$203,891 and administrative costs of \$228,799 to program operating expenses. The total misclassified expenses were \$432,690. As a result, RHD erroneously drew half of the misclassified costs, or \$216,345, from the grant funds to help pay the expenses. Since RHD had already drawn the maximum allowable administrative and supportive service costs, \$216,345 represents ineligible charges against the grant. These improper charges occurred because RHD's accounting records did not classify program expenses by eligible activity in accordance with Federal requirements.

Criteria

Title 24 CFR 85.20(b)(2) states that grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. According to HUD's grant agreement with RHD, grant funds can be used for operating costs, supportive services, and administrative expenses. These three types of expenses are the applications (activities) of the funds that the accounting records must identify.

¹ All ineligible costs were charged to the operating funds. Operating funds have to be matched 50 percent; therefore, costs charged to the grant funds were 50 percent of the total ineligible costs.

In addition, Title 24 CFR 583.120(b) states supportive services costs include salaries paid to supportive service providers and other costs directly associated with providing such services. Operating costs are defined in Title 24 CFR 583.125(b) as costs associated with the day-to-day operations of the supportive housing.

Moreover, Title 24 CFR 583.135(b) states the administrative portion of the grant can only be used for costs associated with accounting for grant funds, preparing reports for submission to HUD, obtaining program audits, and similar costs related to administering the grant after the award, and staff salaries associated with the administrative costs. Further, allowable administrative costs do not include the cost of carrying out eligible activities such as supportive services and operating costs.

HUD Monitoring Review
Disclosed Deficiencies

In September 1999, staff from the Pennsylvania State Office, Office of Community Planning and Development (CPD), conducted a monitoring review of RHD. CPD staff found that RHD's accounting system did not meet HUD requirements because it did not clearly identify costs by eligible categories. As a result, CPD questioned the eligibility of some of RHD's program expenditures and the adequacy of its 50 percent match funds required for operating costs. CPD recommended that RHD cease drawing down funds from the grant until RHD could demonstrate it has improved its accounting records to identify costs by categories.

OIG's Review Confirmed
Deficiencies

When we began our review, we confirmed CPD's monitoring findings. Despite efforts by RHD to improve its accounting system in April 2000, the records still did not adequately identify costs by categories. After discussing this deficiency with RHD, RHD officials provided worksheets as a way to relate expenditures by categories. When we tested selected transactions, we found RHD incorrectly charged supportive service and administrative expenses to operating costs.

Supportive Services
Expenses Were
Misclassified

First, our review of personnel and payroll records showed that seven employees, including two Motivational Counselors, one Vocational Counselor, and four Client Aides, performed supportive services, but their salaries and

**Administrative Costs
Were Misclassified**

benefits were inappropriately charged to operating costs. The misclassification of the supportive service expenses caused RHD to understate supportive service expenses and overstate operating costs. The overstatement of operating costs caused RHD to draw more funds from the grant than it could support.

Next, our review of expenses also showed that RHD misclassified administrative costs totaling \$228,799 as operating costs. These administrative costs included \$59,279 of administrative salaries and benefits, \$48,000 of accounting costs, and \$121,520 of other administrative costs. The administrative salaries and benefits and accounting costs were charged directly to the grant. However, the other administrative costs were charged indirectly to the grant based on an independent public accountant's certified indirect cost plan. The cost plan contained charges for items that were not specifically applicable to the grant.

The misclassification of the administrative costs caused RHD to understate its administrative expenses and overstate its operating costs. The overstatement of operating costs caused RHD to draw more funds from the grant than it could support.

We determined that the misclassifications of supportive service and administrative costs were due to RHD's inadequate accounting records and lack of understanding of Federal requirements regarding accounting systems and eligible expenses.

2. RHD Charged Rent to the Grant.

Between July 1, 1990 and March 31, 2000, RHD charged \$248,960 to operating expenses as rent for a building that it was purchasing. As a result, RHD effectively charged the grant an additional \$124,480 for acquisition costs of the site over and above the original \$150,000 granted for renovations in 1990. The purpose of the rent was to pay a mortgage secured by the site. RHD believed the rent payments were allowable expenditures.

Title 24 CFR 583.105(b) states the maximum grant that HUD could make available for acquisition, rehabilitation, or acquisition and rehabilitation is the lower of \$200,000 or

Criteria

the total cost of the acquisition, rehabilitation, or acquisition and rehabilitation minus the applicant's contribution toward the cost.

Original Proposal for Site

In 1989, RHD proposed in its original application that it would operate AHAD on a site to be donated by the City of Philadelphia (City). The proposed site was to be renovated for an estimated \$300,000. Based on these circumstances, HUD approved RHD's original application and committed \$150,000 for the renovation of the proposed site.

Alternate Site Selected

However, after HUD approved RHD's application and committed funds for the rehabilitation of the site, the City reneged on its agreement to donate the property. As a result, RHD had to secure an alternate site. RHD acquired an alternate site for \$315,000 which was funded with a \$150,000 grant from the City's Office of Housing and Community Development (OHCD) and a mortgage for the balance. HUD provided the original \$150,000 to help renovate the alternate site. The rental charges actually increased HUD's cost of acquisition and rehabilitation to \$274,480, or \$124,480 more than the original agreement of \$150,000.

Rent Payments Disallowed by HUD

HUD mistakenly approved the rent payments in RHD's renewal applications and the amounts of the rental charges were included in the renewal grant agreements. However, when HUD discovered the payments in September 1999 during routine monitoring, it instructed RHD to cease drawing any further funds from the grant until all charges for rent had been repaid to HUD from non-Federal funds. RHD ceased charging the grant for rent six months later on March 31, 2000, and had not repaid any of the ineligible rent as of the date of our review.

RHD acknowledged that it owned the site; however, it said that the ownership would not have been possible without the assistance of a mortgage. Further, RHD officials stated that they believed that the rent charges were eligible because HUD approved the rent budgets in the second and third renewal applications.

RHD management believes that it can reclassify the rental costs to the excess share funds provided by the City after the HUD required share of the allowable total operating

costs of the program are satisfied. However, as of the end of our fieldwork, RHD had not demonstrated that it had sufficient excess share funds to absorb the total rent charged to the program.

3. RHD Duplicated Payments to Vendors.

RHD made \$3,790 of duplicate payments to vendors. As a result, RHD incorrectly used \$1,895 of grant funds to pay for its share of the costs. These duplicate payments occurred because the individual responsible for making the payments did not follow RHD's policy regarding payments for goods and services.

Criteria

Office of Management and Budget (OMB) Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, paragraph A.3.a. states a reasonable cost is a cost which is ordinary and necessary for the operation of the organization or performance of the grant.

Invoices Paid More Than Once

During our review of invoices supporting RHD operating cost payments to vendors, we noted that several invoices with the same serial number, items, services, dates, and amounts were paid more than once. These duplicated payments occurred because the accounts payable clerk responsible for making the payments violated the RHD policy of paying purchases based only on the original invoice. The duplicated payments were made on either non-original invoices or on packing/delivery receipts. These payments are not ordinary or necessary costs.

4. RHD Paid for Gifts.

RHD claimed \$607 for gifts to employees and program participants as operating expenses. As a result, RHD incorrectly drew \$303 of grant funds to pay for these ineligible costs. This occurred because of RHD's lack of familiarity with Federal requirements.

Criteria

Title 24 CFR 583.125 states allowable operating costs are those costs associated with the day-to-day operations of the supportive housing. Further, OMB Circular A-122, Attachment B, paragraph 18, states costs of goods or services for personal use of the organization's employees are unallowable.

Gifts Charged to Grant

The gifts were classified in the accounting records as a “Special Project”. Our review of the supporting receipts showed that the “Special Project” was actually Christmas gift items that included various types of clothing. A RHD representative stated that the gifts were for employees and residents, and the individual was unaware that the gifts were an ineligible program expense.

Recommendations

We recommend that HUD:

- 1A. Require RHD to reimburse HUD \$343,023 for ineligible expenditures.
- 1B. Provide RHD with technical assistance in the following areas: classifying expenditures by eligible activity, allowability, and limit of expenditures for each activity; reconciling its accounting records to reflect the actual expenditures for each activity; and developing an indirect cost plan that includes only costs prescribed by HUD for administrative activity.
- 1C. Require RHD to adhere to its payment policy of paying vendors based only on original invoices.

Other Grant Administration Matters Need Improvement

RHD's procedures or practices were not always in compliance with program regulations. Specifically, RHD made draw downs from the grant without determining the cash requirements of the program and filed inaccurate information in its Annual Progress Reports. As a result of inadequate procedures, RHD was not in compliance with applicable regulations.

1. RHD Made Draw Downs from the Grant Without Determining the Cash Requirements of the Program.

RHD made monthly draw downs based on the proportion of 1/12 of the total funds authorized for its activities. RHD did not establish and maintain draw down procedures to ensure that only the minimum amount needed by the project was drawn. This occurred because the individual responsible for making draw downs was simply using the method that was used in the past.

Criteria

Title 24 CFR 84.22 (b)(2) states that draw downs for approved program costs shall be limited to the minimum amount needed by the recipient in carrying out the purpose of the approved program.

Draw Downs Should Be Matched to Needs

Although our test of monthly draw downs did not detect any instances in which drawn funds were significantly in excess of need, there is a danger that such excesses could occur since RHD has no policy to restrict draw down amounts to only those necessary funds that are required.

2. Annual Progress Reports Provided Inaccurate Financial Information.

RHD provided inaccurate financial information in its 2000 Annual Progress Report (APR). RHD incurred program expenses of \$662,350 according to its accounting records, but reported only \$ 542,301 in its 2000 APR. According to a RHD representative, RHD does not know why the former Associate Financial Director filed the APR using budget figures instead of actual figures.

Criteria

Title 24 CFR 84.51(a) and (d), requires the recipient of the award to monitor performance of each program supported by the award. Additionally, it requires the recipient of the award to submit performance reports that contain a comparison of the goals and objectives established for the period to the actual accomplishments, and, if applicable, reasons why established goals were not met.

As a result of not providing accurate financial information in the APR, HUD has no assurance that RHD's financial performance has been adequately measured.

Recommendations

We recommend that HUD require RHD to:

- 2A. Establish and adhere to written draw down procedures to ensure that the amounts being drawn from the grant are the minimum necessary.
- 2B. Develop and implement procedures to provide accurate financial information in its Annual Progress Reports, thereby ensuring that its financial performance can be adequately measured.

Management Controls

In planning and performing our audit of Resources for Human Development (RHD), we considered the management controls to determine our auditing procedures and not to provide assurance on management controls. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the system for measuring, reporting, and monitoring program performance.

Significant Controls

We determined the following management controls were relevant to our audit objectives:

- Eligibility and support of grant activities;
- Accounting for and maintaining control over program disbursements; and
- Measurement of program results.

We evaluated all of the relevant control categories identified above by obtaining an understanding of RHD's procedures and HUD requirements, assessed control risk, and performed various substantive tests of the controls.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, significant weaknesses existed in the management controls we tested as discussed in the findings.

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Follow Up On Prior Audits

This was the first Office of Inspector General (OIG) audit of the Resources For Human Development (RHD's) Supportive Housing Grant activities.

Shechtman, Marks, Devor & Etskovitz, P.C., Certified Public Accountants, issued the latest RHD's financial audit report for the fiscal year ending June 30, 1999. The report contained no findings related to the objectives of our audit.

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Schedule Of Ineligible Costs

Recommendation Number
1A

Ineligible²
\$343,023

² Ineligible costs are cost charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

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Distribution

Resources for Human Development, 4700 Wissahickon Avenue, Suite 126, Philadelphia,
 Pennsylvania 19144-4248
 Director, Office of Community Planning and Development, Mid-Atlantic, 3AD
 Secretary's Representative (Acting), Mid-Atlantic, 3AS
 Audit Liaison Officer, 3AFI
 Special Agent in Charge, 3AGI
 DIGA's
 Departmental Audit Liaison Officer, FM (Room 2206)
 Deputy Chief Financial Officer for Finance, FF (Room 2202)
 Director, Office of Budget, FO (Room 3270)
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 Principal Staff
 Secretary Representatives
 State Office Coordinators
 The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen
 Senate Office Building, US Senate, Washington, DC 20510
 The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706
 Hart Senate Office Building, US Senate, Washington, DC 20515
 Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House
 Office Building, Washington, DC 20515
 Director, Housing and Community Development Issue Area, US GAO, 441 G Street, N.W.,
 Room 2474, Washington, DC 20548, Attn: Stanley Czerwinski
 The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
 Building, House of Representatives, Washington, DC 20515
 The Honorable Henry Waxman, Ranking Member, Committee on Government Reform, 2204
 Rayburn Building, House of Representatives, Washington, DC 20515
 Mr. Steve Redburn, Chief, Housing Branch, Office of Management & Budget, 725 17th Street,
 N.W., Room 9226, New Executive Office Building, Washington, DC 20503
 Ms. Sharon Pinkerton, Deputy Staff Dir, Counsel, Subcommittee on Criminal Justice, Drug
 Policy and Human Resources, B373 Rayburn House Office Building, Washington, DC
 20515
 Administrator, Office of Federal Procurement Policy, Office of Management and Budget, Old
 Executive Office Building, Room 352, Washington, DC 20503
 Executive Director, Housing Authority of Baltimore City, 417 E. Fayette Street, PO Box 1917,
 Baltimore, MD 21202-3134